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Office of the Legislative Auditor

State of Montana

Report to the Legislature

December 1993

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1993

Montana Arts Council

This report contains four recommendations to the council concerning:

- Accounting for Funding Change
- Cultural and Aesthetic Grants
- Indirect Cost Recoveries
- Council Operating Plan

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1991 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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STATE OF MONTANA

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December 1993

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Arts Council for fiscal years 1991-92 and 1992-93. The report contains recommendations concerning cultural and aesthetic grants, accounting for funding changes, indirect cost recoveries, and operating plans. The council's written response to audit recommendations is included in the back of the audit report.

We thank the director and staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1993

Montana Arts Council

Members of the audit staff involved in this audit were Brenda Bokovoy, Laurie Evans, and Catherine L. Scarff.

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Montana Arts Council

		Term Expires
Larry Williams (Chair)	Great Falls	1995
Carol Novotne (Vice-Chair)	Fort Harrison	1997
Carol Brenden	Scobey	1997
Ann Cogswell	Great Falls	1998
Beth Collier	Shelby	1997
Diane M. Davies	Polson	1998
Kathy Doeden	Miles City	1995
John Dudis	Kalispell	1997
Rick Halmes	Great Falls	1998
James M. Haughey	Billings	1997
George Horse Capture	Hays	1998
Sody Jones	Billings	1998
Bebe Kezar	Whitefish	1995
Jack Nickels, Jr.	Fort Peck	1995
James Whitlock	Hamilton	1995

Administrative Officials

Arlynn Fishbaugh	Executive Director
Carleen Layne	Accountant

Summary of Recommendations

This listing below serves as a means of summarizing the recommendations contained in the report, the council's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the council:

A. Ensure the council's portion of coal tax money is allocated in accordance with section 15-35-108, MCA.

Agency Response: Concur. See page B-3.

B. Move $103,673 from the Nonexpendable Trust Fund to the operating account in the Special Revenue Fund. 5

Agency Response: Concur. See page B-3.

Recommendation #2

We recommend the council comply with state law for Cultural and Aesthetics grants. 6

Agency Response: Concur. See page B-3.

Recommendation #3

We recommend the council promptly negotiate indirect cost rates with the federal government in order to recover indirect costs to the maximum extent possible as required by state law. 7

Agency Response: Concur. See page B-3.

Recommendation #4

We recommend the council record its operating plan on SBAS in compliance with state law. 8

Agency Response: Concur. See page B-3.

Introduction

Introduction

We performed a financial-compliance audit of the Montana Arts Council (council) for the two fiscal years ended June 30, 1993. The objectives of the audit were to:

1. Determine the council's compliance with applicable laws and regulations.
2. Make recommendations for improvement in the council's management and internal controls.
3. Determine if the council's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 1992 and 1993.
4. Determine implementation status of prior audit recommendations.

The report contains four recommendations to the council. These recommendations address areas where the council can improve compliance with laws and regulations. Other areas of concern deemed not to have a significant effect on the successful operations of the council are not included in this report but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations contained in this report.

Background

The Montana Arts Council was established as a state agency in 1967. The council consists of 15 members who are appointed by the governor, confirmed by the Senate, and serve a five-year term. The council members are responsible for the governance, management, and control of the agency. The council's duties are to:

1. Encourage the study and presentation of the arts throughout the state.
2. Stimulate public interest and participation in the arts.
3. Cooperate with public and private institutions engaged in cultural and aesthetic activities.

4. Foster public interest in the cultural heritage of Montana and expand the state's cultural resources.

5. Encourage and assist freedom of artistic expression.

Programs such as Artists in Schools/Communities, Governor's Awards for the Arts, First Book Award and Montana Folklife are designed by the council to expose Montanans to their artistic and cultural heritage. Organizational grants, fellowships, technical assistance and networking efforts help support both individual artists and art and cultural organizations.

The council has three sources of funding: federal grants from the National Endowment for the Arts, investment earnings from the Cultural Trust Fund, and support from the General Fund. General Fund support was $129,912 and $7,655 in fiscal years 1991-92 and 1992-93, respectively. The decrease in General Fund support in 1992-93 was due to the funding change discussed on page 4. During the audit period, the council had eight full-time employees.

Prior to fiscal year 1991-92, the council received one-third of the investment earnings from the Coal Tax Parks Acquisition Trust Fund. Beginning in fiscal year 1991-92, section 15-35-108, MCA, allocated one-third of the Coal Tax Parks Acquisition Trust Fund assets to the Nonexpendable Cultural Trust Fund to be administered by the council. Beginning July 1, 1991 investment income from the Cultural Trust Fund is used for the protection of works of art in the state capitol and for other cultural and aesthetic projects. The legislature determines which organizations will receive grants from the council's investment income and the council grants the money as specified by the legislature. The 52nd Legislature approved funding for 102 cultural and aesthetic projects in the 1993 biennium.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed the audit of the Montana Arts Council for the two fiscal years ended June 30, 1991. The audit report contained three recommendations which are still applicable to the council. The council concurred with the recommendations and implemented one recommendation but did not implement the other two. The two recommendations not implemented concerned federal indirect cost recovery (page 6), and recording the operating plan on SBAS (page 8).

Findings and Recommendations

Accounting for Funding Change

Chapter 8, Special Session January 1992 provided a funding change for the council for fiscal year 1992-93. The General Fund support was almost entirely replaced by coal tax money. The funding switch was made by allocating 42.5 percent of the council's portion of the coal tax to fund operating costs. The remaining 57.5 percent was allocated to the council's Nonexpendable Trust Fund. Previously, 100 percent of the council's portion of coal tax money was allocated to the Nonexpendable Trust Fund. Investment income from the Nonexpendable Trust Fund was appropriated for cultural and aesthetic projects.

We noted the allocation of the coal tax and investment income was not in accordance with state law. None of the coal tax funds were put into the council's operating account in the Special Revenue Fund. Instead all of the coal tax revenue was put into the Nonexpendable Trust Fund. The state Department of Revenue allocates the coal tax revenue as quarterly tax payments are received. However, it is the council's responsibility to ensure its portion of the coal tax is being allocated properly.

Council personnel said they put all of the coal tax money into the Nonexpendable Trust Fund in order to build up the assets available for investment. As a result, tax revenue of $103,673 is understated in the Special Revenue Fund and overstated in the Nonexpendable Trust Fund during fiscal year 1992-93. Accordingly, the Nonexpendable Trust Fund owes the Special Revenue Fund $103,673.

Recommendation #1

We recommend the council:

A. Ensure the council's portion of coal tax money is allocated in accordance with section 15-35-108, MCA.

B. Move $103,673 from the Nonexpendable Trust Fund to the operating account in the Special Revenue Fund.

Cultural and Aesthetics Grant

The council administers cultural and aesthetics (C&A) grants which are appropriated by the legislature. The appropriation bill specifies the grant recipients and award amounts. It also includes language which stipulates the timing and percentage of award amount to be distributed. During our audit we noted an instance where the council did not comply with C&A grant restrictions.

The council sought and was awarded a $50,000 C&A grant for the folklife program for the 1993 biennium. This was an in-house grant to the council. Section 22-2-306, MCA, states grantees may not receive more than 50 percent of the grant in the first year of the biennium. The council expended $38,629 of the grant amount in the first year of the biennium.

Council personnel said expenses in excess of the $25,000 should have been charged to a federal folklike grant which was similar to the C&A folklife program. Personnel also indicated the grant award was not overexpended in total for the two fiscal years of the biennium. Council personnel further indicated the folklife program is a direct appropriation in the 1995 biennium and not a part of the C&A grants.

It is the responsibility of the council to monitor C&A grant activity to ensure expenditures are made in compliance with

state law. Accordingly, the council should have monitored its folklife grant for compliance with state law.

Recommendation #2

We recommend the council comply with state law for cultural and aesthetics grants.

State Compliance

Indirect Costs

State agencies are required by section 17-3-111, MCA, to negotiate indirect cost rates in accordance with federal regulations and recover indirect costs of federal assistance programs to the fullest extent possible.

The last federally approved indirect cost rate negotiated between the National Endowment for the Arts (NEA) and the council was effective through December 31, 1990. The NEA told the council to submit an updated indirect cost proposal based on the council's audited financial statements for the year ended June 30, 1990 as soon as possible. Furthermore, indirect costs were not to be charged or budgeted after December 31, 1990 on grants, contracts or applications unless a new proposal had been submitted.

During the audit period, the council used the expired fiscal year 1988-89 indirect cost rate in their applications for federal funding. When the NEA awarded grant funds for fiscal year 1992-93, the council was notified it was "imperative" they renegotiate a new rate prior to June 30, 1993. The council did not submit a new indirect cost proposal until July 1993. The council used the proposed rate, which had not yet been approved by the NEA to calculate federal indirect costs for fiscal year 1992-93. The council charged indirect costs of $9,965 to the federal grants.

Council management said they did not negotiate a new indirect cost rate earlier because they did not receive a copy of the fiscal year 1989-90 statewide indirect cost allocation plan, which is the basis for the indirect cost rate, until August of 1991. Also, council personnel stated the fiscal year 1989-90 financial statements were not audited until the spring of 1992.

Once the audit report including fiscal year 1989-90 was issued, the council should have negotiated an indirect cost rate and thus would have been in compliance with the NEA requirement to negotiate a new indirect cost rate prior to the end of the fiscal year 1992-93 grant period. The council should not have used the expired indirect cost rate in its grant applications, nor, should it have recorded the $9,965 of indirect costs based on an unapproved rate. We therefore question a total of $9,965 of indirect costs on NEA grants as shown in Table 1.

Table 1

Schedule of Questioned Costs

Promotion of Arts	CFDA #	Amount
State and Regional Programs	45.007	$8,608
Local Programs	45.023	$ 535
Expansion Arts	45.010	$ 340
Folk Arts	45.015	$ 264
Arts in Education	45.003	$ 218

Source: Compiled by OLA from council records.

Recommendation #3

We recommend the council promptly negotiate indirect cost rates with the federal government in order to recover indirect costs to the maximum extent possible as required by state law.

Operating Plan

Section 17-7-138, MCA, requires state agencies to record an operating plan and any approved changes on the Statewide Budgeting and Accounting System (SBAS). The law requires each operating plan to include expenditures for each program by the categories of personal services, operating expenses, equipment, benefits and claims, grants, transfers and local assistance. Establishing the plan on SBAS aides the agency in monitoring its plan and allows users outside of the agency to obtain a financial picture of council operations.

We recommended in our last audit report the council record its approved operating plans on SBAS. The council concurred with our recommendation. However, the council did not establish its operating plan on SBAS for fiscal year 1991-92. In addition, the operating plan for fiscal year 1992-93 was incomplete and did not properly reflect the council's approved operating plan. The council did not properly allocate $1,294,176 of its $3,610,237 budget on SBAS.

Council personnel said the council director retired at the beginning of fiscal year 1992-93 and the accountant served as acting director. Because of this increased work load, other special projects, and legislative sessions, the accountant did not have the time necessary to properly record the operating plan on SBAS. Council personnel further indicated the majority of the unallocated budget related to continuing appropriations and a transfer appropriation which were overlooked when establishing the council's operating plan.

Recommendation #4

We recommend the council record its operating plan on SBAS in compliance with state law.

Independent Auditor's Report & Council Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented.

The financial schedules are prepared from SBAS without adjustments for errors noted during the audit. This is done to allow the reader to determine the degree of reliance that can be placed on the information recorded in the accounting records.

The qualified opinion on the schedules means the reader should use caution when using the information presented. Some transfers are not recorded in conformity with state statute.

STATE OF MONTANA

Office of the Legislative Auditor

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MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Montana Arts Council for each of the two years ending June 30, 1992 and 1993, beginning on page A-5. The information contained in these schedules is the responsibility of the council's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the council's assets and liabilities.

The council recorded $103,673 of coal tax money, which was appropriated to the Special Revenue Fund for administrative costs in fiscal year 1992-93, in the Nonexpendable Trust Fund. As a result, cash transfers in are overstated in the Nonexpendable Trust Fund and understated in the Special Revenue Fund by $103,673 on the Schedule of Changes in Fund Balance for fiscal year 1992-93. In addition, the June 30, 1993 Fund Balance is understated by $103,673 in the Special Revenue Fund and overstated by the same amount in the Nonexpendable Trust Fund.

In our opinion, except for the effect of the matters discussed in paragraph four, the schedules referred to in the first paragraph present fairly, in all material respects, the result of operations and changes in fund balances of the Montana Arts Council for the two years ended June 30, 1992 and 1993, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 6, 1993

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1993

	General Fund	Special Revenue Funds	Nonexpendable[2] Trust Funds
FUND BALANCE: July 1, 1991	$ 0	$ (362,413)[1]	$ 0
ADDITIONS			
Fiscal Year 1991-92			
Budgeted Revenue & Transfers In		895,688	691,916
Nonbudgeted Revenue & Transfers In	3,649		
Prior Year Expenditure Adjustments		2,508	
Support From State of Montana	129,912		
Prior Year Revenue Adjustments		10,000	
Direct Entries to Fund Balance		752,775[1]	6,294,183[2]
Cash Transfers In			275,633[2]
Fiscal Year 1992-93			
Budgeted Revenue & Transfers In		1,284,291	582,833
Nonbudgeted Revenue & Transfers In	9,965		
Prior Year Expenditure Adjustments		676	
Support from State of Montana	7,655		
Prior Year Revenue Adjustments		1,335	
Prior Year Transfers In Adjustments		387,254[3]	
Direct Entries to Fund Balance		25,838	
Cash Transfers In			243,936[2]
Total Additions	151,181	3,360,365	8,088,501
REDUCTIONS			
Fiscal Year 1991-92			
Budgeted Expenditures & Transfers Out	133,561	1,240,681	278,000
Fiscal Year 1992-93			
Budgeted Expenditures & Transfers Out	17,620	1,736,852	582,833
Prior Year Transfers Out Adjustments			387,254[3]
Prior Year Expenditures		(500)	
Direct Entries to Fund Balance			25,838
Total Reductions	151,181	2,977,033	1,273,925
FUND BALANCE: June 30, 1993	$ 0	$ 20,919	$6,814,576

[1] See note 5 on page A-11.

[2] See note 6 on page A-11.

[3] See note 7 on page A-12.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA ARTS COUNCIL
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1993

	Grants, Contracts, & Donations	Other Financing Sources	Federal	Investment Earnings	Total
Fiscal Year 1992-93					
SPECIAL REVENUE FUND					
Estimated Revenue	$ 95,000	$671,000	$ 820,030		$1,586,030
Actual Revenue	70,701	582,833	630,757		1,284,291
Collections Over (Under) Estimate	$(24,299)	$(88,167)	$(189,273)		$ (301,739)
NONEXPENDABLE TRUST FUNDS					
Estimated Revenue				$671,001	$ 671,001
Actual Revenue				582,833	582,833
Collections Over (Under) Estimate				$(88,168)	$ (88,168)
Fiscal Year 1991-92					
SPECIAL REVENUE FUND					
Estimated Revenue	$57,500	$651,000	$ 789,167		$1,497,667
Actual Revenue	57,500	278,000	560,188		895,688
Collections Over (Under) Estimate	$ 0	$(373,000)	$(228,979)		$ (601,979)
NONEXPENDABLE TRUST FUNDS					
Estimated Revenue				$734,001	$ 734,001
Actual Revenue				691,916	691,916
Collections Over (Under) Estimate				$(42,085)	$ (42,085)

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA ARTS COUNCIL
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
AND TRANSFERS OUT BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE TWO FISCAL YEAR ENDED JUNE 30, 1993

	1993 Promotion of The Arts	1992 Promotion of The Arts
PERSONAL SERVICES		
Salaries	$ 218,911	$ 207,200
Other Compensation	5,850	4,750
Employee Benefits	57,052	52,295
Total	281,813	264,245
OPERATING EXPENSES		
Other Services	238,261	208,268
Supplies & Materials	17,809	21,170
Communications	29,006	27,798
Travel	63,024	50,670
Rent	27,069	26,117
Repair & Maintenance	3,181	1,601
Other Expenses	39,774	9,840
Total	418,125	345,464
EQUIPMENT AND INTANGIBLE ASSETS		
Equipment	749	1,493
Total	749	1,493
GRANTS		
From State Sources	846,360	510,317
From Federal Sources	207,425	252,723
Total	1,053,785	763,040
TRANSFERS		
Accounting Entity Transfers	582,833	278,000
Total	582,833	278,000
TOTAL PROGRAM EXPENDITURES	$ 2,337,305	$1,652,242
GENERAL FUND		
Budgeted	$ 19,119	$ 136,371
Actual	17,620[1]	133,561
Unspent Budget Authority	$ 1,499	$ 2,810
SPECIAL REVENUE FUND		
Budgeted	$ 2,038,010	$2,638,446
Actual	1,736,852	1,240,681
Unspent Budget Authority	$ 301,158	$1,397,765
NONEXPENDABLE TRUST FUNDS		
Budgeted	$ 671,000	$ 734,000
Actual	582,833	278,000
Unspent Budget Authority	$ 88,167	$ 456,000

[1] See note 4 on page A-10.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1993

1. Summary of Significant Accounting Policies

Basis of Accounting

The council uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the council records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable.

State accounting policy also requires the council to record the cost of employees' annual leave and sick leave when used or paid.

The council uses accrual basis accounting for the Non-Expendable Trust Fund. Under the accrual basis, as defined by state accounting policy, the council records revenues in the accounting period earned if measurable.

Expenditures and expenses may include entire budgeted service contracts even though the council received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The council uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The council uses these funds for grants from the National Endowment for the Arts and the cultural and aesthetics project.

Fiduciary Funds

Trust Funds - to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. The council's Nonexpendable Trust Fund, which is new in fiscal year 1991-92, is the Cultural Trust Fund. A portion of coal severance tax collections is deposited in this fund and earnings from the fund are used for cultural and aesthetics projects.

2. Annual and Sick Leave

Employees at the council accumulate both annual and sick leave. The council pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. The council absorbs expenditures for termination pay in its annual operational costs. At June 30, 1992 and at June 30, 1993, the council had a liability of $42,296 and $34,557, respectively.

3. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System (PERS). The council's contribution to PERS was $13,266 in fiscal year 1991-92 and $14,371 in fiscal year 1992-93.

4. General Fund

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

The council's funding was modified during the January 1992 Special Session. The majority of General Fund support was replaced by diverting 42.5 percent of the coal tax allocated to the

Nonexpendable Trust Fund in fiscal year 1992-93. Thus, General Fund expenditures are significantly less ($17,620) in fiscal year 1992-93 than in fiscal year 1991-92 ($133,561).

5. Special Revenue Fund - Negative Beginning Fund Balance and Direct Entry to Fund Balance

Prior to fiscal year 1991-92, a portion of the council's funding was from investment earnings from the Coal Tax Parks Trust Account. The Department of Revenue recorded the investment income on its accounting records and periodically transferred money to the council. The direct entry to fund balance in the Special Revenue Fund in fiscal year 1991-92 represents cash transferred to the council from the Department of Revenue for fiscal year 1990-91. Because the council did not record the transfer on its accounting records until after the end of the fiscal year to which the transfer related, there was a negative fund balance in the Special Revenue Fund at the beginning of fiscal year 1991-92.

6. Nonexpendable Trust Fund

The 52nd Legislature allocated to separate trust funds the coal severance tax money that in the past would have been deposited in a Nonexpendable Trust Fund for Parks Management, Protection of Works of Art in the State Capitol, and Other cultural and aesthetic projects. The direct entries to fund balance in the Nonexpendable Trust Fund of $6,294,183 for fiscal year 1991-92 were due to the transfer of a portion of the Coal Tax Parks Trust Account from the Department of Revenue to establish the Cultural Trust Fund at the Montana Arts Council. The cash transfers of $275,633 and $243,936 for fiscal years 1991-92 and 1992-93, respectively, represent the amount of coal tax moneys allocated to the Nonexpendable Trust Fund during the fiscal years. The amount of coal tax money transferred to the Nonexpendable Trust Fund in fiscal year 1992-93 is overstated by $103,673. This amount represents the coal tax money that by state statute, should have been put in the council's operating account in the Special Revenue Fund.

7. Prior Year Transfers

Income from the Nonexpendable Trust Fund is appropriated for cultural and aesthetics projects. Income earned but not expended during the fiscal year is accrued and used to fund approved projects in the following year. The council did not accrue $387,254 of unexpended interest for fiscal year 1991-92 until fiscal year 1992-93. This accounts for the prior year transfers in and prior year transfers out amounts recorded on the Schedule of Changes in Fund Balances.

Agency Response

MONTANA ARTS COUNCIL

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RECEIVED
NOV 22

To: Scott Seacat
Legislative Auditor

DATE: November 22, 1993

From: Arlynn Fishbaugh
Executive Director

RE: Review of audit recommendations and agency response

We have reviewed the audit recommendations. Enclosed find our position, contemplated corrective action and timetable for implementation on each recommendation. We also wish to thank the Legislative Audit staff for making their audit during the fiscal year end and staff vacation time-frame as painless as possible. We appreciate your consideration a great deal.

Recommendation #1
We recommend the council:
A. Ensure the council's portion of coal tax money is allocated in accordance with section 15-35-108, MCA.
B. Move $103,673 from the Nonexpendable Trust Fund to the operating account in the Special Revenue fund.

Agency position: We concur. Corrective action has already been taken. On October 13,1993, $103,673 was moved from the Nonexpendable Trust Fund to the operating account in the Special Revenue fund.

Recommendation #2
We recommend the council comply with state law for cultural and aesthetics grants.

Agency position: We concur. Corrective action is not necessary. As noted in your report, the folklife program is a direct appropriation in the 1995 biennium and not a part of the C&A grants, as it was in the 93 biennium.

Recommendation #3
We recommend the council promptly negotiate indirect cost rates with the federal government in order to recover indirect costs to the maximum extent possible as required by state law.

Agency position: We concur. The council has submitted paperwork for the indirect cost negotiation on July 17, 1993. We received the most recent SWCAP just this week and will submit the next round of paperwork as soon as this audit is completed and final information is available. This should be accomplished within 90 days of the finalization of this audit report.

Recommendation #4
We recommend the council record its operating plan on SBAS in compliance with state law.

Agency position: We concur. We completed the majority of this task in fiscal 93 and will be in total compliance in fiscal 94. This should be accomplished by January 1, 1994.

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